*Iga Kleszczyńska**

Big metropolises as international financial centers. The case study of London, New York and Hong Kong

Introduction

It seems that in the current era of globalization, the hypothesis that money rules the world seems extremely obvious. In international financial relations, money is primarily used as a medium of exchange, a unit of value and measurement. What is more, granting loans fulfills the basic function of financial activity, which greatly facilitates trade, investing and saving. Subsequently, loans affect the purchasing capacity of individual entities, and thus the production structures and exchange rates in which the loans are denominated (Ravenhill, 2011, pp. 268-259). In accordance with the adopted assumptions, global financial structures can be defined as the arena of capital accumulation or transformation of savings into loan funds (Owsiak, 2015, p. 23). They are the sum of institutions and regulations that affect credit availability and financial relations between states, as well as all factors that affect exchange rates. Also, money has many political functions. They are a source of power, as well as an instrument for the implementation of many political interests. Therefore, the functioning and organization of financial and monetary systems are rarely determined by maximizing efficiency (Strange, 1988, p. 93). Close links between financial systems and politics are highlighted in particular at international level, i.e. where there is no single central government (Jędrzejkowska, 2012, p. 124). This often raises questions – what currency should be used in international financial transactions and what should be the relationship between financial currencies? Answers to these questions are often determined

* Iga Kleszczyńska, PhD student, Jagiellonian University (Poland) / mgr Iga Kleszczyńska, Uniwersytet Jagielloński, e-mail: igakleszczynska@gmail.com

by political goals related to the implementation of individual interests (Ravenhill, 2011, pp. 257-258). A properly developed financial system is a prerequisite for a thriving economy. It enables correct and effective accumulation and allocation of funds and savings. The effect of these activities is, among others, the technological progress, by the implemented investments, which ultimately determines the competitiveness of a given economy (Strange, 1988, p. 95). Hence, globalization understood in this way meant that money became a kind of substitute for the armed force and an instrument of state policy, ensuring its security both internally and internationally. Thus, the increase in the wealth of the state has become synonymous with the increase in the value of financial assets held, which are the result of the development of trading in financial instruments on the secondary market (Rao, 2003, pp. 13-15).

The concept of "financial center" is very extensive, and globalization has made it increasingly complex. In June 2000, the International Monetary Fund published a working document that proposed a taxonomy for classifying different types of global financial centers (*Offshore financial*...). Based on the document, it is possible to distinguish: International Financial Centers (IFCs) such as New York, London or Tokyo; Regional Financial Centers such as Boston, Frankfurt or Sydney; and Offshore Financial Centers – e.g. Cayman Islands or Singapore. International financial centers have been described by the IMF as large international service centers with advanced clearing and payment systems, supporting large domestic economies with deep and liquid markets, in which both sources and ways of using funds are diverse, and their legal and regulatory instruments are sufficient to safeguard the integrity of the relationship between participants and supervisory authorities. Currently, the leading financial centers are located in large metropolises of highly developed countries. The concentration ratio of these markets is very high and, moreover, it is able to reflect the position of individual countries in the global production structure and trade exchange (Sasen, 1998, pp. 12-13).

International financial centers, and some regional ones, are comprehensive financial centers with direct access to large deposits of capital from banks, insurance companies and investment funds, which are listed on financial markets. They also act as global financial cities. Based on the territorial criterion, financial centers are locations that bring together market participants by offering them support services for their activities. Participants may be financial intermediaries (e.g. banks or brokers), institutional investors (pension funds, insurers, hedge funds) and issuers (e.g. companies and governments). Trading activities could take place in locations such as stock exchanges and include clearing houses. A lthough many transactions take place outside the regulated market (over the counter – OTC) (*About over*...). Financial centers typically include companies that offer a wide range of financial services, such as those related to mergers and acquisitions, public offerings or corporate activities. Ancillary financial services of centers include, however, the activities of rating agencies as well as legal advice and management accounting (Roberts, 2008, p. 11).

The Global Financial Center Index is a ranking of competitiveness of financial centers based on over 29,000 ratings from online platform surveys, which is related to around one hundred indicators developed by organizations such as the World Bank, the Organization for Economic Cooperation and Development and Economist Intelligence Unit. The publication is published twice a year by the Z/Yen Group in London (since 2007) and the China Development Institute in Shenzhen (since 2015). They are a widely cited source of assessment for individual financial centers in the world. Analyzing individual reports, it can be seen that over the past decade, 60% of the index has moved from Western centers to Asian centers. This procedure confirms that the structure of global financial structures has undergone significant changes. Some of the changes were geopolitical, ranging from China's growing economic significance to global conflicts, sanctions, trade flows, financial crises and demographic growth. However, some of the changes were purposeful, which allowed to focus on the attractiveness of individual global financial centers for relocation and foreign investment (*The Global*..., 2018, pp. 1-3).

London as the world's oldest financial center

London is a leading international financial center of the world since the 19th century, which acts as a source of loans and investments. A frequently used term in relation to the capital of England – "City of London" refers to both a place and a kind of industry. Considering the place criterion, it refers to the oldest district of London – "Square Mile", settled since Roman times and once surrounded by medieval city walls with the cathedral of St. Paul. For centuries, this district, bringing merchants and bankers from around the world, was the center of international trade and finance. Today, the term "the City" refers primarily to London's international financial services sector. In recent years, however, the city's financial activities have spread outside Square Mile. Since the 1990s, many of the leading finance companies have set up the Canary Wharf office complex, a district of modern skyscrapers built on the site of former London docks, about three miles east of Square Mile. Currently, the area of Central London – West End has also become home to other companies providing financial services, such as hedge (*About Hedge…*) and equity funds (Roberts, 2008, p. 4).

There are two types of services at London's financial centers: retail and wholesale. Retail financial services are located in urban shopping streets, mainly serving domestic customers and meeting the needs of individuals and small enterprises in the area of current and savings accounts, loans and mortgages. Wholesale financing includes financial services that are provided between companies that offer financial services, in particular between commercial and investment banks, stockbrokers, fund managers and insurance companies, as well as institutional clients such as large corporations, governments and public agencies. London, like other financial centers, consists of a matrix of complementary elements – financial and commercial services sectors, financial markets and financial institutions as well as companies from the financial services industry (*About Hedge…*).

In the 21st century, London remains a leading financial center and maintains the largest trade surplus in financial services around the world. London's economy is dominated by service industries, in particular financial services and related professional services that have strong links with the economy in other parts of the United Kingdom and internationally (Cameron, 1991, p. 14). According to the Brookings Institution, in 2011 London was the fifth largest metropolitan economy in the world. The London Stock Exchange is the largest in Europe and the most international stock exchange of this type of properties (Istrate, Nadeau, 2012). Moreover, more than half of the London Stock Exchange listed companies and more than 100 of the 500 largest companies in Europe are based in central London. In 2017, “the City of London” still remains the largest financial exporter in the world, which has a significant share in the balance of payments of the United Kingdom. The Canary Wharf currently houses the world headquarters of the two largest banks in the world – HSBC and Barclays, many Citigroup headquarters and the headquarters of the Reuters Group news agency. The position of the London financial market is also ensured by the activities of Bank of England, the second oldest central bank in the world and the European Banking Authority. Other key institutions of the British financial sector are primarily Lloyd’s of London¸ which performs insurance and reinsurance functions, Euronext.liffe, ICE Futures and Baltic Exchange (Roberts, 2008, pp. 4-5).

New York as the leader of international financial centers

By the end of the nineteenth century, New York's role as an international financial center was inversely proportional to the major European centers – primarily London – importing capital on the west Atlantic coast and exporting it on the east coast. When it comes to financing the U.S. foreign trade, it remained heavily dependent on the City of London. Thus, New York did not yet fulfill all the functions of a global international financial center, but its importance became increasingly decisive for three reasons: the total amount of foreign investment in the United States, the dynamics of the American economy and the position of the city of New York as a whole, which was the U.S. financial center (Cassism, Wójcik, 2018, pp. 123-124). From the mid-twentieth century, New York, represented by Wall Street, was recognized as a leading financial center. Currently, the New York Financial Center is an eight-kilometer street running from Broadway to South Street, in the East River, in the Lower Manhattan financial district (Cheng, Raina, Xiong, 2014). Over time, Wall Street has become a metonym for financial markets in the United States as a whole, including the the U.S. financial services sector (even if individual financial companies are not physically located there) or New York financial interests in general. Anchored by Wall Street, New York has been named both the most economically powerful city and the world's leading financial center.

The United States banking system is headed by the Federal Reserve Bank (FED), whose headquarters are in Washington D.C. This institution is responsible for creating and implementing the U.S. monetary policy. Although individual decisions are made by the Federal Reserve Board of Governors. Also, it supervises banks and participates in the monetary settlement system (Teslik, 2008). The New York FED, whose headquarters are located in Manhattan's financial district, is the largest in terms of assets and the most important of the twelve regional banks of the Federal Reserve System (Ostaszewski, Cicirko, 2006, s. 41). Moreover, it is responsible for the second district, which includes the state of New York and the city of New York, as well as Puerto Rico and the U.S. Virgin Islands. The Federal Reserve Bank also oversees the implementation of open market operations (OMO) as well as the buying and selling of U.S. Treasury securities. For over thirty years, Wall Street has been a major magnet for attracting business and investment to New York, boosting job creation, innovation and growth in all industries covering the city. New York is the American center of the largest domestic and foreign banking operations that invest billions each year in local commercial and infrastructure development. Five of the world’s ten largest private equity companies and half of the world's largest hedge funds are based in the New York metropolitan region. In fact, New York is second only to Silicon Valley when it comes to venture capital activities and is a global center of financial technology, and investments in local companies are growing almost ten times faster compared to 2009 (*At Risk*..., 2015, p. 29).

However, over the past few decades, with the rise of a multipolar world with new regional powers and global capitalism, numerous financial centers (especially Asian ones) have questioned New York's position as a leader in global financial structures. Nevertheless, New York remains the largest trading center on the equity and debt markets, driven partly by the size and financial development of the U.S. economy. The New York Stock Exchange and NASDAQ Stock Market are the two largest stock exchanges in the world. NYSE is by far the largest stock exchange in the world in terms of market capitalization of listed companies, whose value in June 2016 was 20 trillion dollars. The average daily turnover value in 2013 was around 169 billion dollars. NASDAQ is the second largest stock exchange in terms of market capitalization. Several other major stock exchanges have or are headquartered in the Wall Street area, including the New York Mercantile Exchange, the New York Board of Trade, and the former American Stock Exchange. New York is also a leader in hedge fund management. The New York financial center also dominates the monetary value of mergers and acquisitions. The financial services industry has the largest contribution to New York's economic production, i.e. gross city product (CPG) (Stringer, 2014, p. 1). Currently, the financial sector generates about 20% of CPG, which is approximately twice as much as in the next largest industries (professional, scientific and technical services) and real estate. The financial services industry achieves this thanks to only 8% of city employees, i.e. about 310,000 people, and about half of the jobs in the industry are brokerage services (*At Risk*..., 2015, p. 30).

New York's global financial center positioning has many benefits for the entire United States – a wealthy country that is constantly generating savings. The New York Stock Exchange is a kind of "natural resource" for the U.S. government, which is a symbol and foundation of their wealth. However, this position is influenced by many other factors – primarily the position of the dollar as still the most important reserve currency in the world, a strong central bank of the FED, an improved banking system, huge deposits of owned securities, as well as an extensive enterprise sector. That is why economists say that the leading role of New York as the world financial center of the world is not threatened despite many fears by the American government. It is also worth adding here that the efficiency of the New York financial center is also possible due to the fact that the political capital of the United States is located in another city. That is why New York remains the preferred home for the global financial services industry. However, among the largest employers in the private sector, there is a growing tendency to move jobs and business operations to reduce costs to a more friendly business environment. In the absence of public action to cover high costs, high taxes, aging infrastructure and hostile political and regulatory climate, the city's future as a global financial capital may be threatened primarily by Asian markets (Cassism, Wójcik, 2018, pp. 34-35).

Hong Kong as a financial emerging metropolitan power

Hong Kong is one of the leading international financial centers in Asia. In terms of financial infrastructure, it has the most advanced multi-currency payment, clearing and deposit system in Asia that meets international standards. It has an integrated network of institutions and markets, offering a wide range of highly liquid financial products and services for local and international investors. Hong Kong was ranked first among the 60 leading financial systems and capital markets in the world in the World Economic Forum's 2011 Financial Development Report when the Asian financial center received such an honor for the first time (Li, Dong, Jin, 2017, pp. 2-3).

As Hong Kong's third largest international financial center, it conducts a service-oriented economic policy that is characterized by low taxes, almost free port turnover, and an established international financial market. Its currency, known as the Hong Kong dollar, is legally spent by three major international commercial banks and tied to the U.S. dollar. Interest rates are set by individual banks in Hong Kong to ensure that they are market driven. There is no officially recognized central banking system, although

Hong Kong's monetary authority acts as a financial regulatory authority (Elliott, 2011, p. 10). Hong Kong is not only an international financial center, but also an important business center. As the core logistics of East Asia, it serves over 400 airlines belonging to around 80 international container companies, heading to over 500 destinations per week. Its container port is one of the busiest in the world with an efficient customs clearance procedure (*Overview…*, 2018, pp. 5-6).

According to the Freedom Economic Index, Hong Kong has had the highest degree of economic freedom since the index was created in 1995. Its economy is regulated by so-called positive interventionism and is highly dependent on international trade and finance. For this reason, Hong Kong is considered to be one of the most favorable locations for starting a business. However, some critics note that there are still many areas where power involvement in the economy is evident. All land in Hong Kong is government-owned and leased to private developers and users on agreed terms for fees that are paid to the treasury. By limiting land lease sales, the Hong Kong government maintains land prices at an artificially high price, which allows the government to support public spending with a low level of income tax (*Overview…*, 2018, p. 10).

However, Hong Kong's current position also has many other important factors. First of all, the strategic location, by which Hong Kong is a gateway to mainland China. In addition, the city is located in the center of Asia, and all other key markets in the region are within a maximum of four hours of flight from its location. Due to its location and financial significance, Hong Kong is an intermediary in continental trade – 90% of China's external transactions settled in Renminbi are carried out via Hong Kong. Other factors also include the bilingual legal system and a simple tax regime. In accordance with the "one country, two systems" principle, Hong Kong has maintained its common law system. The rule of law, maintained by an independent judiciary, is the cornerstone of Hong Kong's success as a leading shopping and financial center, providing an efficient and secure environment for individuals and companies. Also, it has one of the lowest general tax rates for companies among developed countries, and public and private companies are treated equally, which gives Hong Kong the most attractive business environment in East Asia in terms of attracting foreign direct investment. Hong Kong was the third largest FDI recipient in the world (*Hongkong*…, 2018, p. 2).

Conclusion

In the 21st century, the role of international financial centers underwent significant transformations, both qualitative and quantitative. New York, London and, more recently, Hong Kong remain the three largest financial metropolises. Their place in the global ranking is dictated primarily by the financial capabilities they possess, which are usually implemented by large stock exchange institutions. Changes in the global system and the accompanying globalization processes and technological development have meant that the shape and functions of financial markets have been significantly redefined. Globalization has meant that the context of time and space in the global finance structure has ceased to be relevant. While the financial duo of the London and New York Stock Exchange still maintain their quotations, however, their interests and position in recent years has been threatened by Asian emerging markets – including Hong Kong. In addition to these changes, political and economic crises have an impact on the current position of global financial centers. The financial crisis in 2008 exposed the imperfections of the New York Stock Exchange, and in the aftermath of global financial institutions, spilling its negative effects on the global financial structure. Due to the decision made by means of a referendum on the withdrawal of Great Britain from the structures of the European Union, the future of London as a global financial center has also been called into question. These turbulences make Asian markets the main destination of capital from global investors.

Bibliography

About Hedge Funds, The Official Website of the International Monetary Fund, https://www.imf.org/en/Publications/GFSR/Issues/2016/12/31/-Hedge-Fund-industry-Developments-and-Practices-27028 (5.01.2019).

About over the counter, The Official Website of the International Monetary Fund, https://www.imf.org/external/pubs/ft/fandd/basics/markets.htm (5.01.2019).
At Risk: New York's Future as the World Financial Capital (2015), Partnership for New York City, GLG June.
Cameron R. (1991), *International Banking 1970-1914,* Oxford University Press, New York.
Cassism Y., Wójcik D. (2018), *International Financial Centres after the Global Financial Crisis and Brexit,* Oxford University Press, Oxford.
Cheng I.H., Raina S., Xiong W. (2014), *Wall Street and the Housing Bubble,* „American Economic Review", no. 104(9).
Elliott D.J. (2011), *Building a Global Financial Center in Shanghai,* John L. Thornton China Center at Brookings, Washington.
Haliżak E. (2012), *Geoekonomia,* Wydawnictwo Naukowe Scholar, Warsaw.
Hongkong China's Global Financial Centre (2018), Financial Services and The Treasury Bureau, Financial Services Development Council, Hongkong.
Istrate E., Nadeau C.A. (2012), *Global Metro Monitor,* "Brookings Institutions", November, http://www.brookings.edu/research/interactives/global-metro-monitor-3 (5.01.2019).
Li Ch., Dong Y., Jin H. (2017), *Hongkong's Business and Financial Hub Development: Factors, Challenges, and Policy Implications,* "Inside Global Issues", Working Paper.
Offshore financial centers, IMF Background Paper, The Official Website of the International Monetary Fund, https://www.imf.org/external/np/-mae/oshore/2000/eng/back.htm (5.01.2019).
Ostaszewski J., Cicirko T. (2006), *Finanse spółki akcyjnej*, Difin, Warsaw.
Owsiak S. (2015), *Finanse,* Polskie Wydawnictwo Ekonomiczne, Warsaw.
Overview of Hong Kong Financial Services Industry (2018), Hong Kong – The International Financial Centre for Asia and beyond, Financial Services Development Council, Hong Kong.
Rao P.K. (2003), *International Finance*, Springer, Berlin.
Ravenhill J. (2011), *Globalna Ekonomia Polityczna,* Wydawnictwo Uniwersytetu Jagiellońskiego, Cracow.
Roberts R. (2008), *The City: A Guide to London's Global Financial Centre*, Economist Books, London.
Sasen S. (1998), *Losing Control? Sovereignty in The Age of Globalization,* Columbia University Press, New York.
Strange S. (1988), *State and Markets,* Continuum, London and New York.
Stringer S.M. (2014), *NYC Quartlerly Economic Update,* Office of the New York City Comptroller, Bureau of Fiscal & Budget Studies, Washington D.C.
Teslik L.H. (2008), *The U.S. Financial Regulatory System,* „Council on Foreign Relations" October, https://www.cfr.org/backgrounder/us-financial-regulatory-system (5.01.2019).
The Global Financial Centers Index 24 (2018), China Development Institute, Zen, Long Finance, London.